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Easy credit, overwhelming debt

By Allison Mudge | September 3, 2005

I PAID \$2,000 for a T-shirt.

I have the hawkers who recruit college students to sign up for credit cards to thank for that. My freshman year, all my friends and I had to do was fill out a simple credit card application in exchange for towels, CDs, keychains, coffee mugs, or, in my case, T-shirts.

I received my "free" T-shirt when I signed up for a CitiCard with an \$800 credit line. I tossed the card aside and thought nothing of it until the end of my sophomore year when, strapped for cash, I remembered the little piece of plastic buried somewhere in my desk. I would be starting a six-month paid internship in a few months, so I knew I could afford to pay off whatever I charged -- as long as I charged responsibly.

I only intended to use the card for necessities like gas, but once I realized how easy it was to buy now, pay later, I found myself charging concert tickets, clothes, jewelry, you name it. I charged with alarming frequency and little regard for the consequences. Before I knew it, I was \$800 in debt. CitiCard, predictably, increased my balance to \$1,600.

I did not know what the Annual Percentage Rate on any of the card was until I sat down to write this piece. All I knew was that the rate with CitiCard was 0 percent for the first six months, a benefit I never enjoyed since I waited so long to activate the card.

To my surprise, I discovered that my APR is 20.24 percent. It had been 16.49 percent in May, but I missed a payment that month. I do not remember anyone ever telling me of the punishment that awaited if I missed just one payment. Or that even one late payment might remain on my credit report for seven years.

Why do I look better to a creditor than my parents, who have been working and managing their credit for decades? According to DebtWizards, a consumer advocate website, students tend to remain loyal to their first card and, because so many of us abuse our credit limits, fail to pay off balances in full. Credit card companies know they will make their money back many times over.

The Globe reported in May that young adults owed around \$1,500 on their credit cards in 1992. By 2001, this amount had nearly doubled. In 1990, one half of college students had a credit card, a number that increased to 83 percent by 2001. During the early 1990s, credit card companies began to drop parental cosigner requirements, making it easier for students to obtain credit. You don't need to major in logic to see the relationship between such significant increases and the lack of oversight by tuition-paying parents.

A task force led by the US Bankruptcy Court in Boston revealed that students who apply for cards at campus tables have more cards, higher balances, and worse over-the-limit and delinquency problems. Sound familiar?

A Citibank spokeswoman says that the vendors who deal the credit cards on campus are

required to attend training in sales techniques, product knowledge, and rules and standards. But do students really know what to ask? I didn't, and I certainly wasn't offered any information on escalating APRs, late fees, or spending limits.

On campus, students learn how easy it is to charge clothes, music, DVDs, schoolbooks, and especially food and alcohol. The habit is often carried into adulthood. The bankruptcy task force found that 40 percent of adults in the United States admit they misuse credit while living beyond their means.

A good credit history is essential in securing housing, mortgages, and car loans. But such essentials will be hard to come by for people who cross the line between responsible and out-of-control spending. With all of the great courses on literature and economics available on my campus, what is missing is a good basic course on financial literacy.

Every time I pay off some of my balance, I charge something else in its place. Add that to all the interest I've paid, and I've spent close to \$2,000 just so I could get a free shirt. Every week, my roommates and I find our mailbox flooded with credit card applications. Many retail stores now offer their own cards with promises of discounts on initial purchases. I fell for the pitch from Victoria's Secret. My APR on that card is 43.5 percent. Not a very sexy rate.

And in case you were wondering: I've never worn the T-shirt.

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